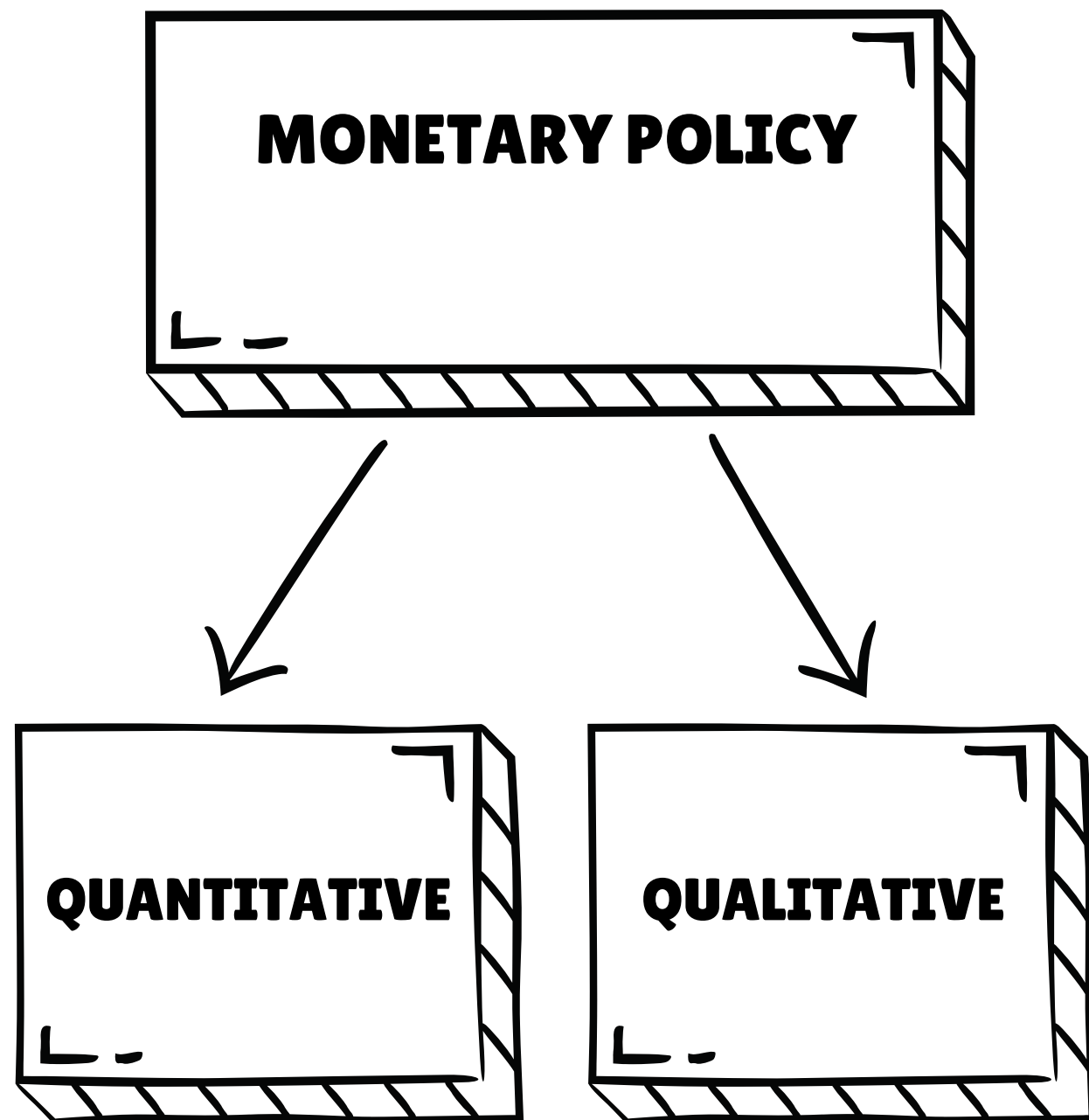


BANKER

BABU3.0

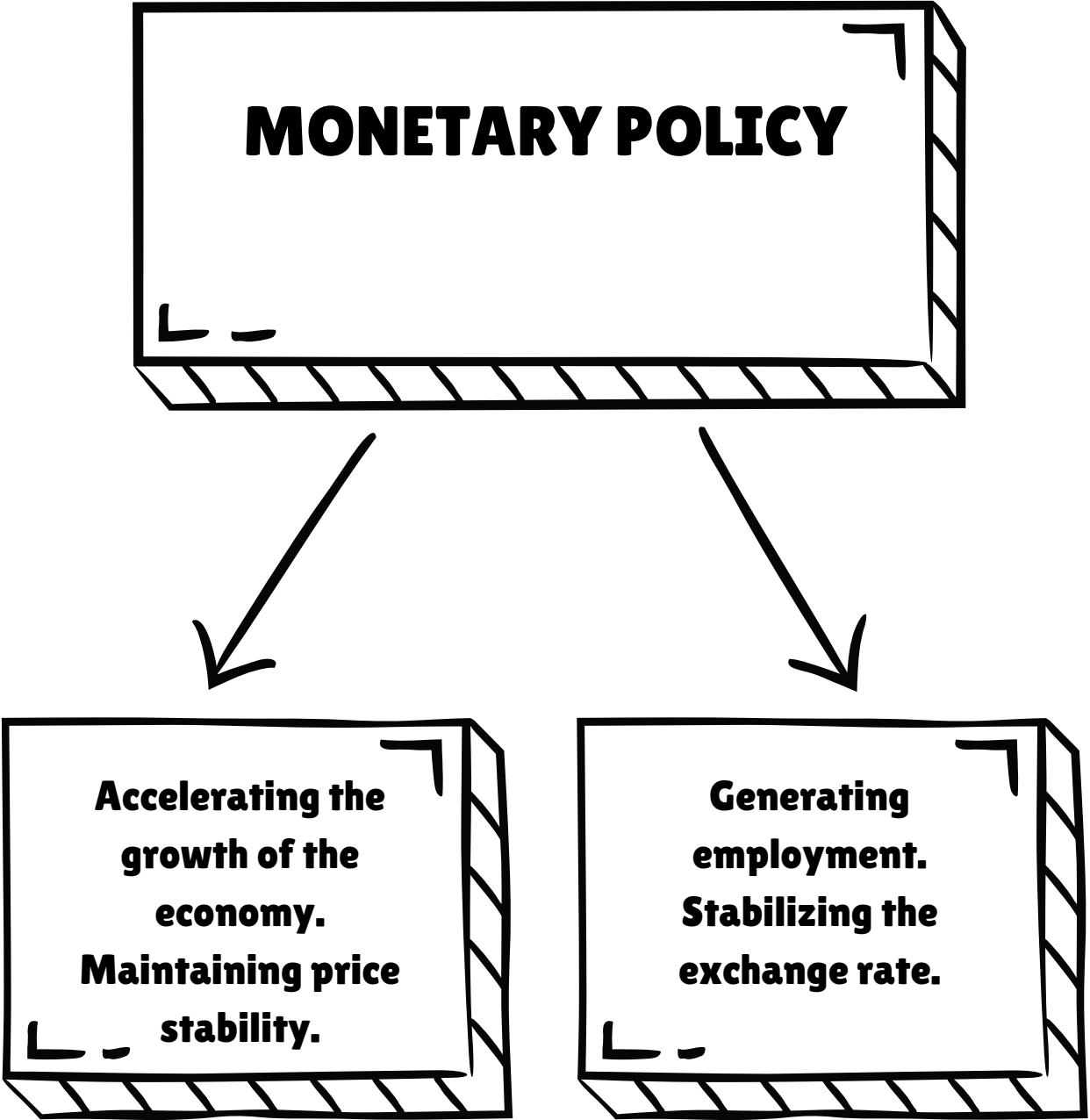
RBI'S

MONETARY POLICY

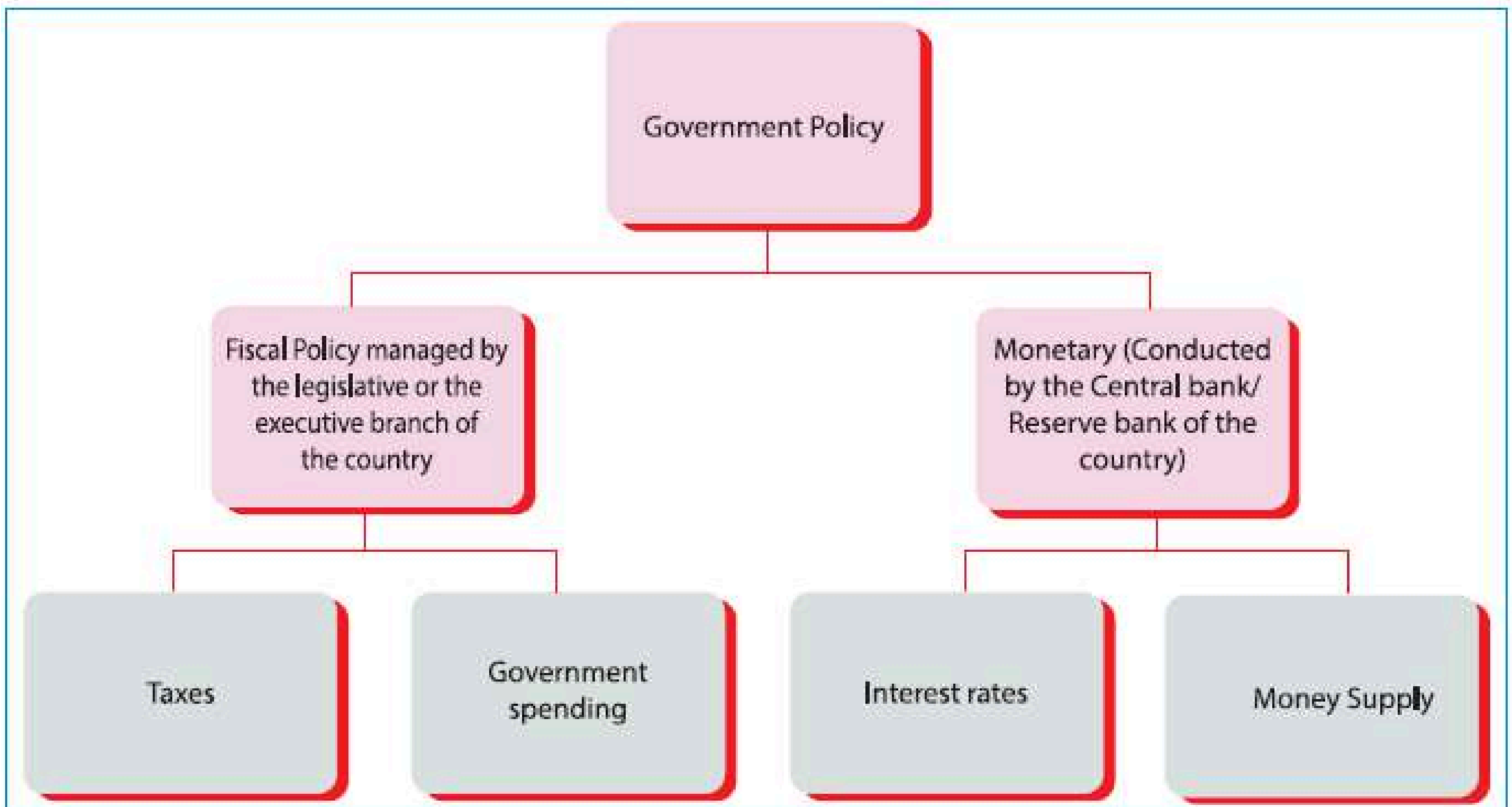


MONETARY POLICY

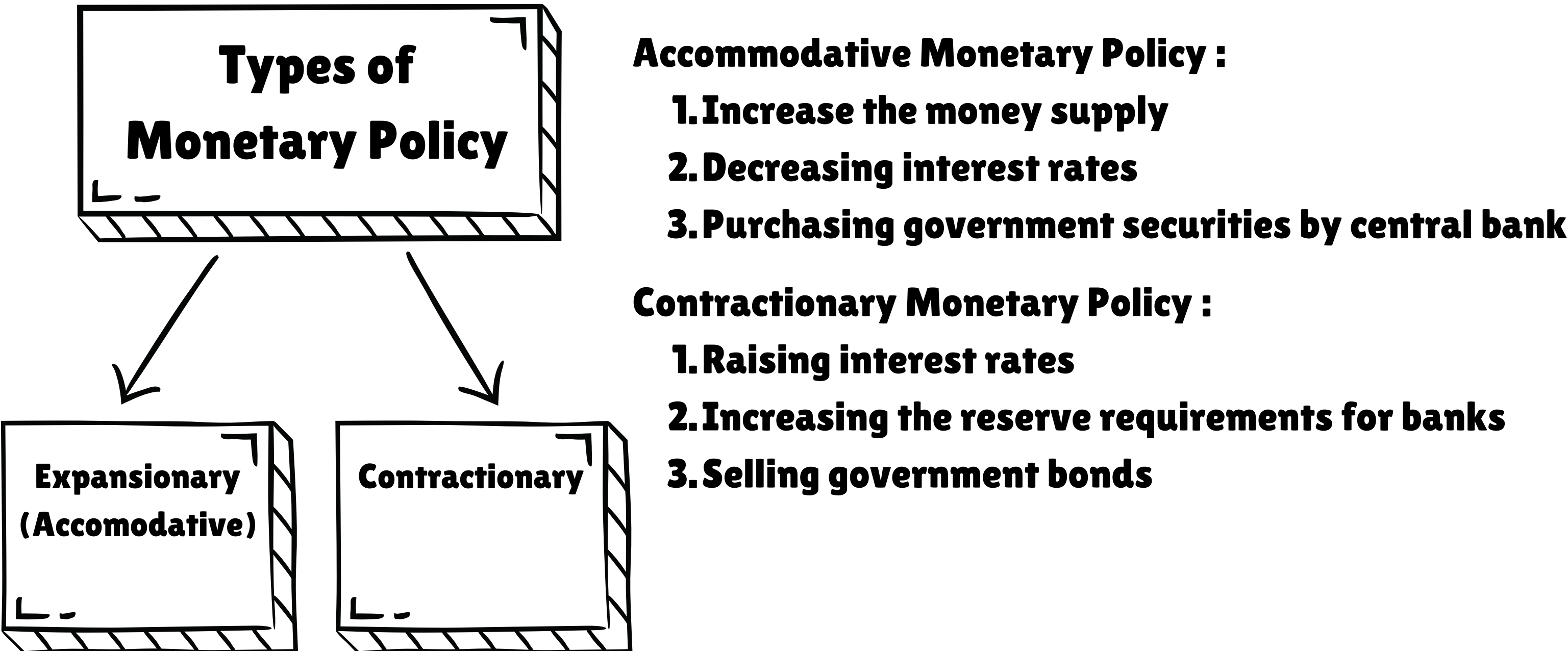
- **It is a macroeconomic policy tool used by the Central Bank to influence the money supply in the economy to achieve certain macroeconomic goals.**
- **Macroeconomics is a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole.**
- **It involves the use of monetary instruments by the central bank to regulate the availability of credit in the market to achieve the ultimate objective of economic policy.**



	Fiscal Policy	Monetary Policy
Definition	It is a macro-economic policy used by the government to adjust its spending levels and tax rates to monitor a nation's economy	It is a macroeconomic policy used by the Central Bank to influence money supply and interest rates.
Institutional Control	Controlled by the Government	Controlled by the Central Bank
Prime Objective	To influence the economic condition	To influence the money supply and interest rates.
Major Tools	Public Expenditure, Taxation, Public Borrowing etc	Bank Rate, Cash Reserve Ratio, Statutory Liquidity Ratio etc



Types of Monetary Policy



Accommodative Monetary Policy :

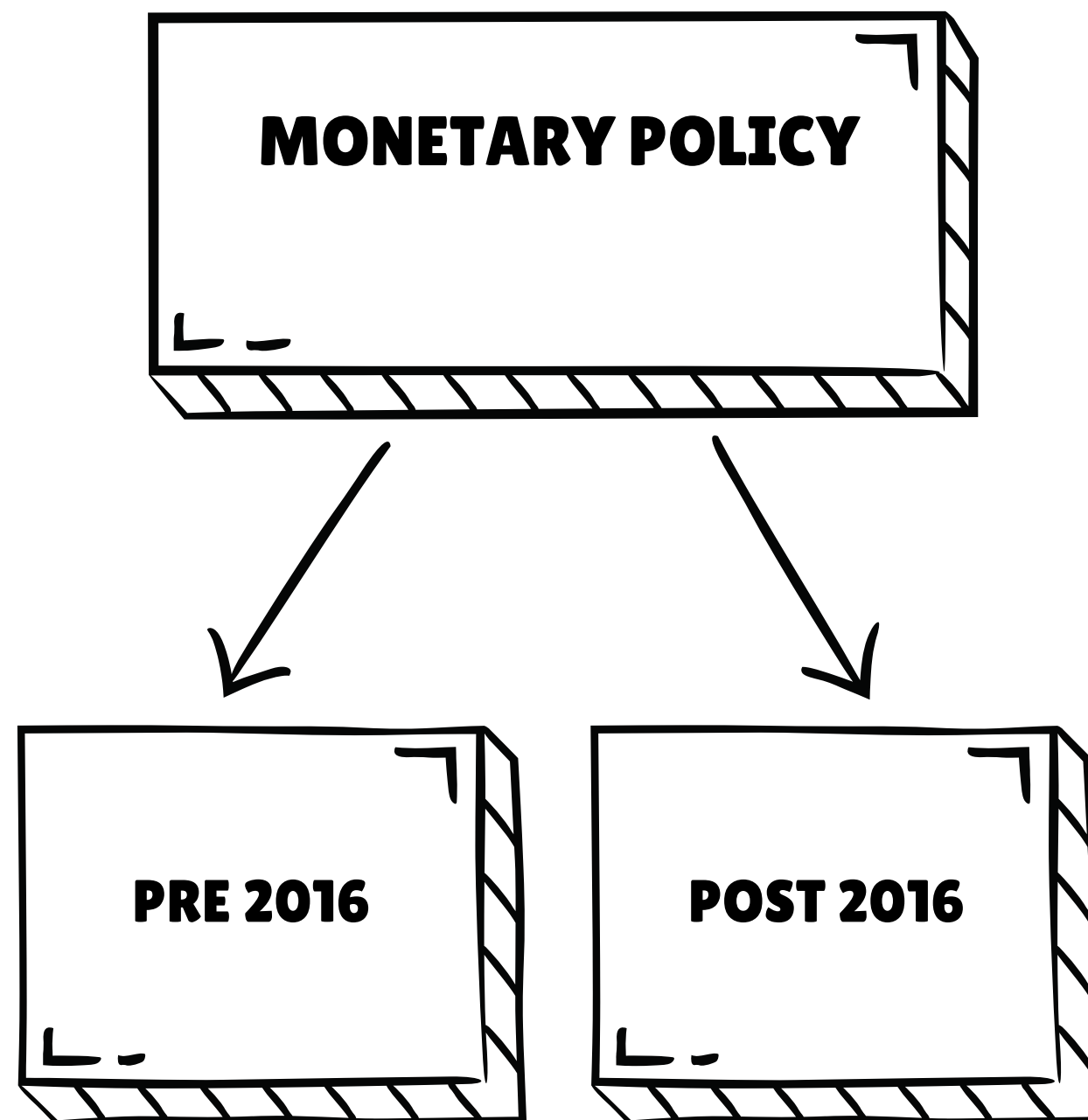
- 1. Increase the money supply**
- 2. Decreasing interest rates**
- 3. Purchasing government securities by central bank**

Contractionary Monetary Policy :

- 1. Raising interest rates**
- 2. Increasing the reserve requirements for banks**
- 3. Selling government bonds**

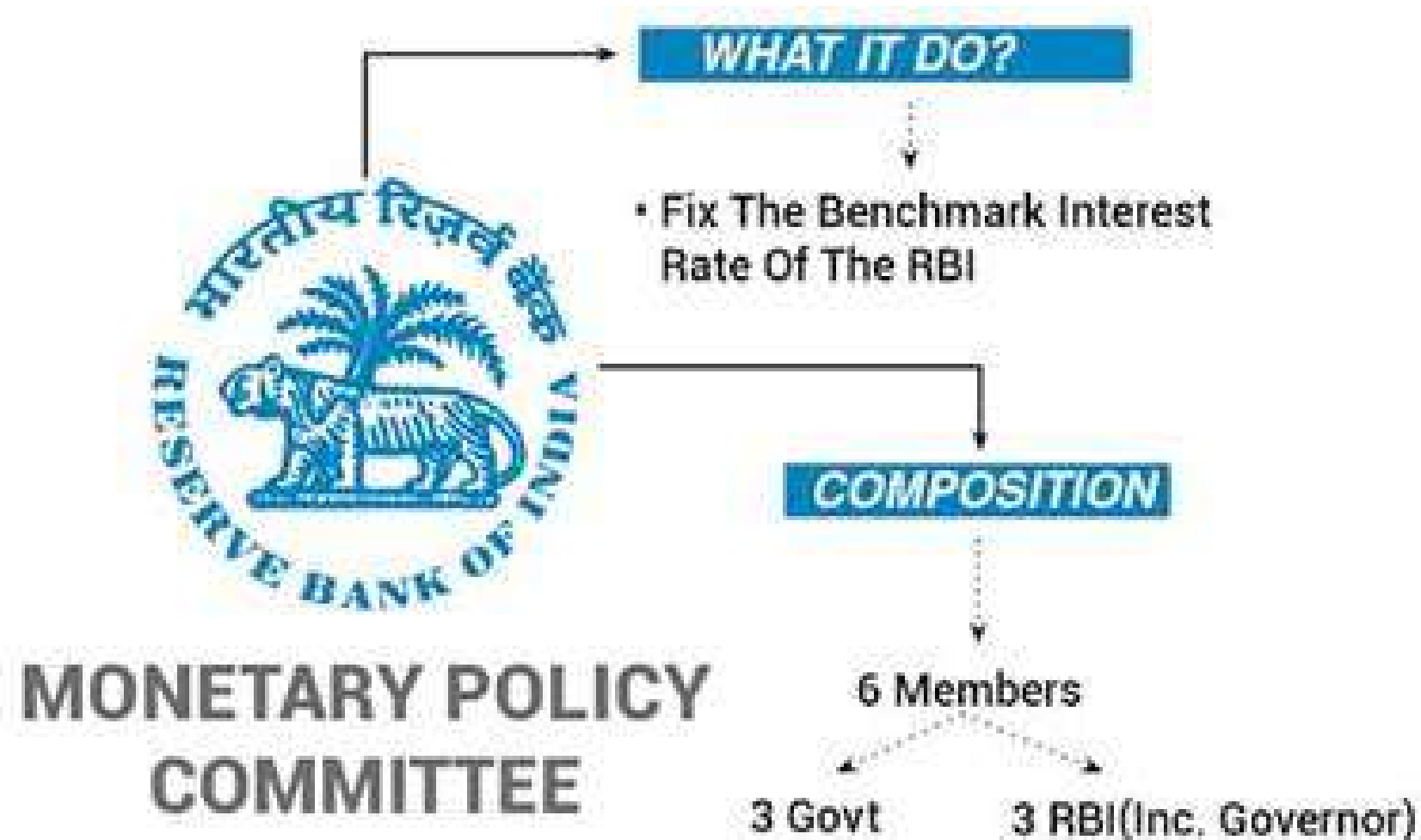
**Expansionary
(Accomodative)**

Contractionary



MONETARY POLICY

- Prior to the year 2016, the Governor of RBI was singularly responsible for the formulation of monetary policy in India
- The Finance Act of 2016 amended the RBI Act of 1934 to set up a Monetary Policy Committee (MPC).



PROVISIONS

```
graph TD; A[PROVISIONS] --> B["Inflation target set by Govt in consultation with the RBI  
2021-25 : 4 (+/-2)"]; A --> C["RBI more accountable to the government if it fails to meet the inflation targets."];
```

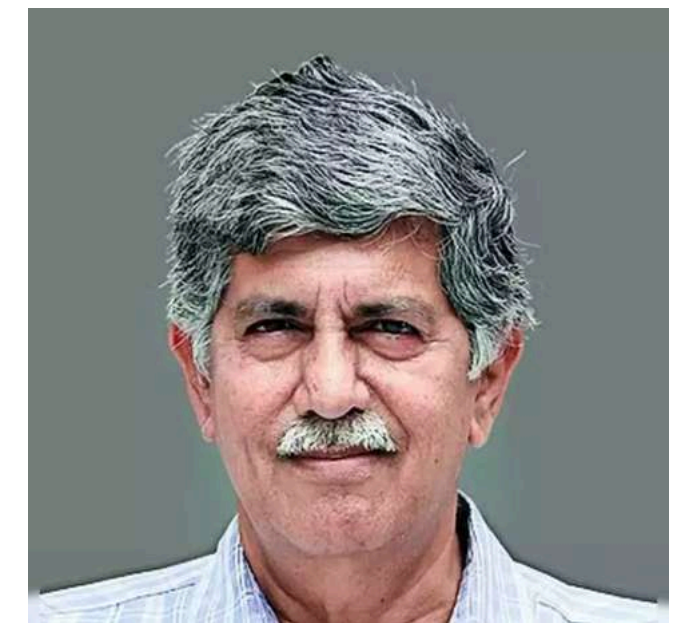
**Inflation target set
by Govt in
consultation with
the RBI
2021-25 : 4 (+/-2)**

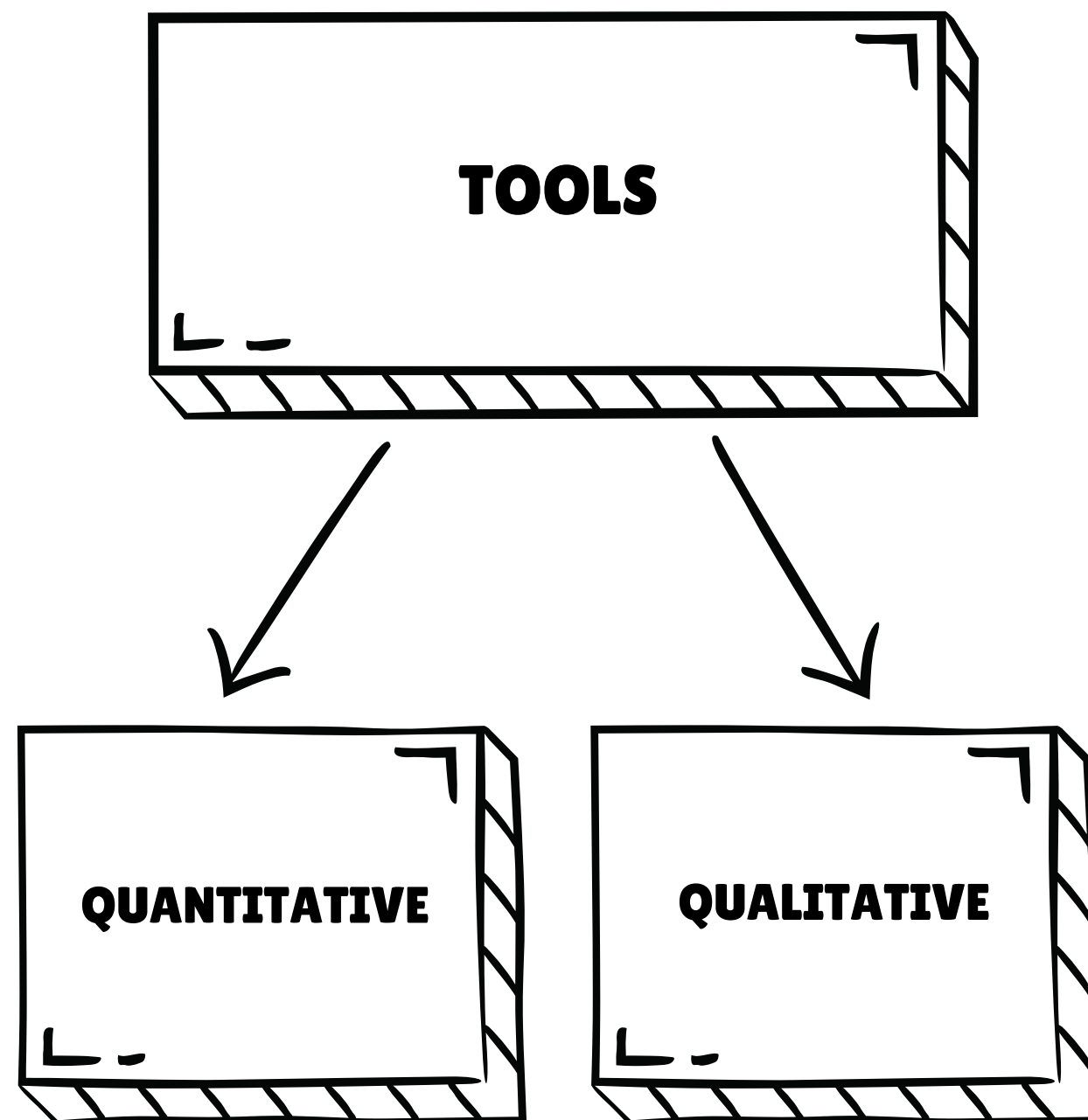
**RBI more
accountable to the
government if it
fails to meet the
inflation targets.**

MONETARY POLICY COMMITTEE

- **Committee : Urjit Patel**
- **Section 45ZB of the amended RBI Act, 1934**
- **Composition : 6 members**
- **The Committee is to meet at least 4 times a year.**
- **Tenure : 4 years**

- 1. Governor of the Reserve Bank of India – Chairperson, ex officio – Shaktikanta Das**
- 2. Deputy Governor of the Bank in charge of monetary policy – Michael Debrata Patra**
- 3. Executive Director of the Bank in charge of monetary policy – Rajiv Ranjan**
- 4. Ashima Goyal is a member of Prime Minister Narendra Modi's economic advisory council. Ms Goyal is a professor at the Indira Gandhi Institute of Development Research in Mumbai and was a visiting fellow at Yale University.**
- 5. Shashanka Bhide is a senior advisor at the National Council for Applied Economic Research, a New Delhi-based think-tank, whose work has involved research into agriculture, poverty analysis and macroeconomics.**
- 6. Jayanth Varma is a finance and accounting professor at the Indian Institute of Management, Ahmedabad. He was formerly on the board of the country's capital markets' regulator.**

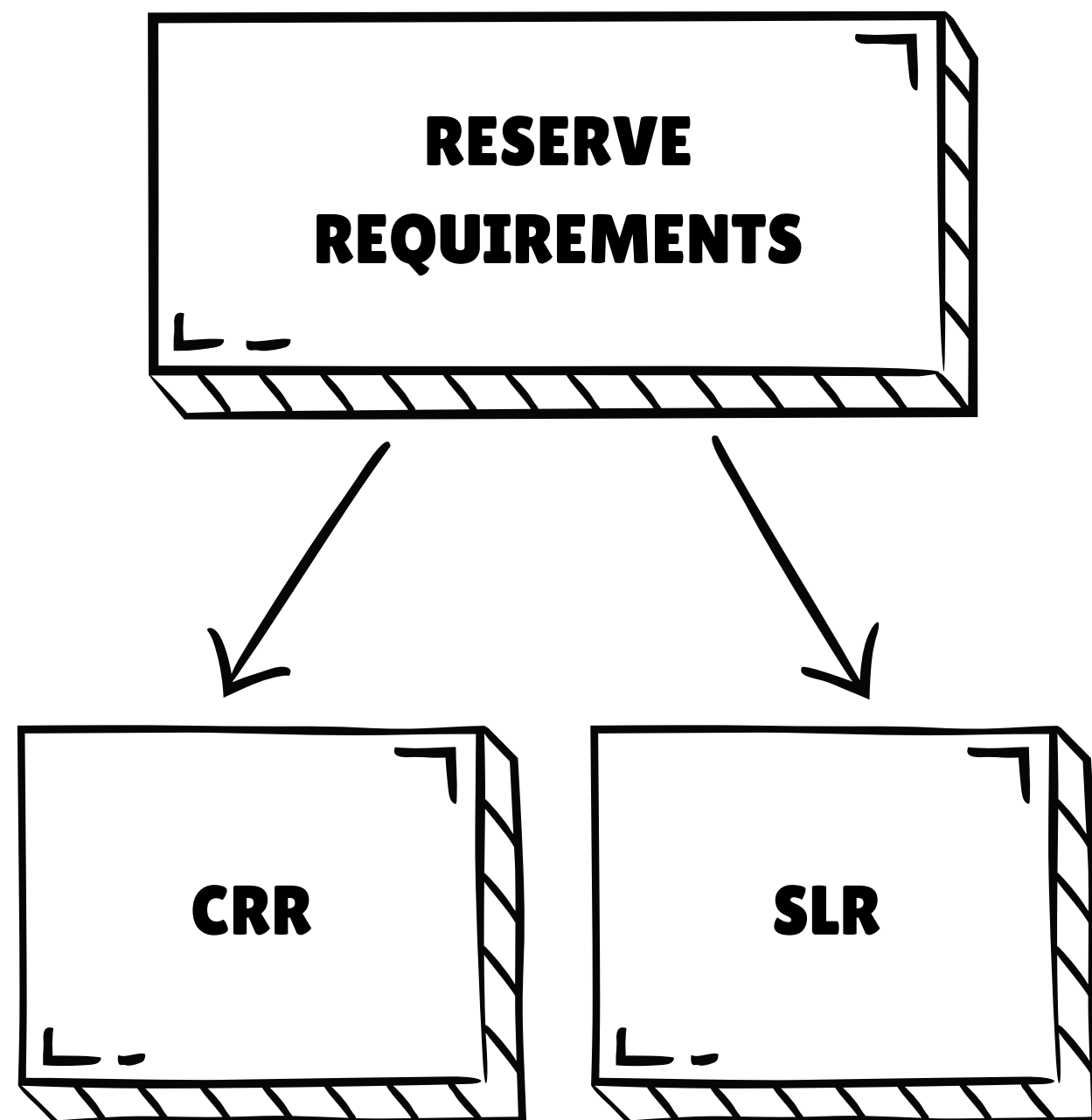




MONETARY POLICY TOOLS

- **Quantitative tools of monetary policy are aimed at controlling the cost and quantity of credit.**
- **Qualitative Tools – Qualitative tools of monetary policy are aimed at controlling the use and direction of credit.**





Cash Reserve Ratio (CRR)

- 1. Minimum percentage of a bank's total Demand and Time Liabilities (DTL) that a Scheduled Commercial Bank is obligated to deposit with the RBI in the form of cash.**
 - 2. RBI does not pay any interest on CRR deposits.**
 - 3. No Range.**
- **If CRR is increased:** If the RBI increases the CRR, the commercial banks have to deposit more money with the RBI and are left with less money to lend to customers. Thus, the effect is reduced money supply in the economy.
 - **If CRR is decreased:** If the RBI decreases the CRR, the commercial banks have to deposit less money with the RBI and are left with more money to lend to customers. Thus, the effect is increased money supply in the economy.


```
graph TD; A[RESERVE REQUIREMENTS] --> B[CRR]; A --> C[SLR]
```

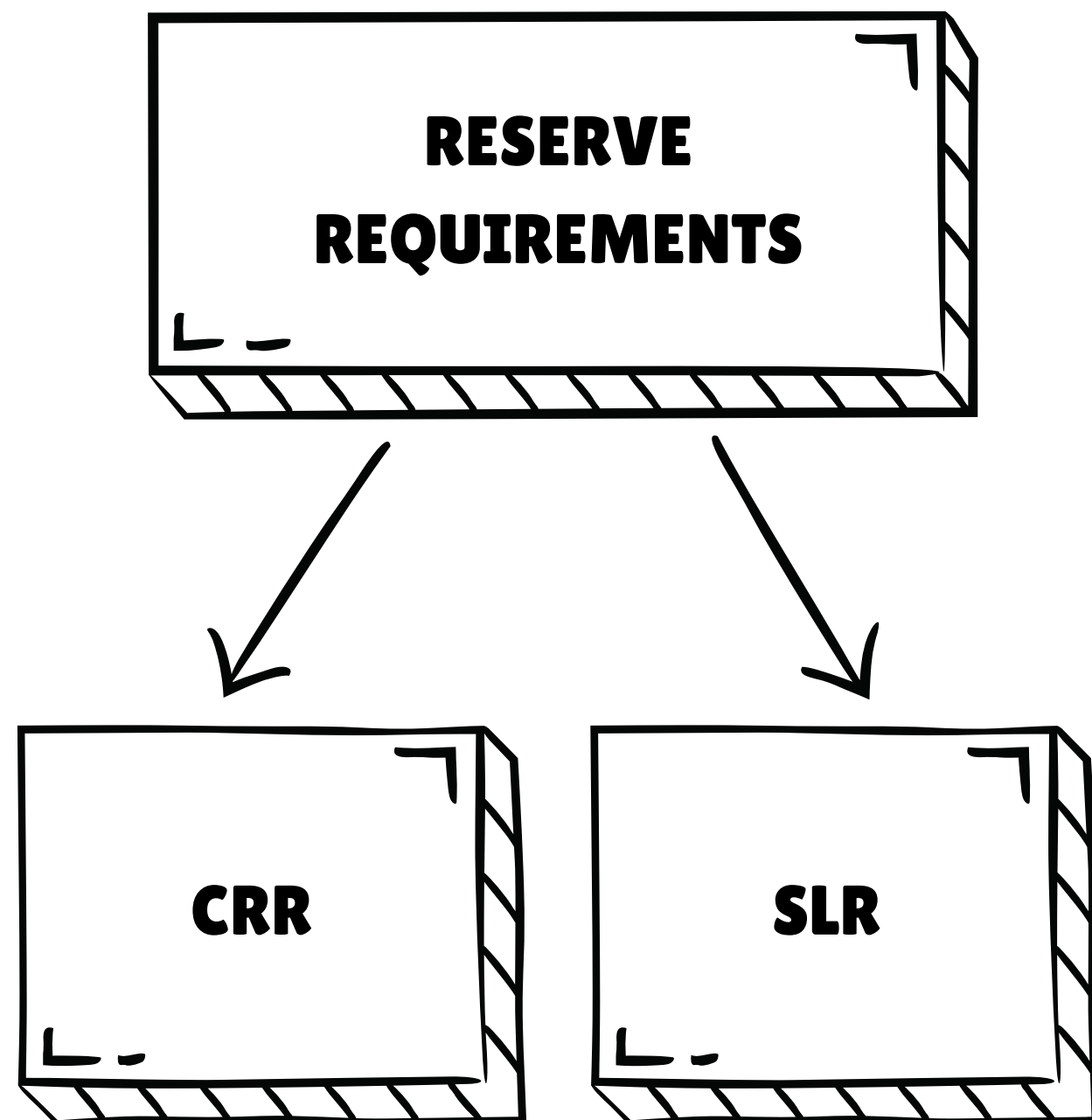
**RESERVE
REQUIREMENTS**

CRR

SLR

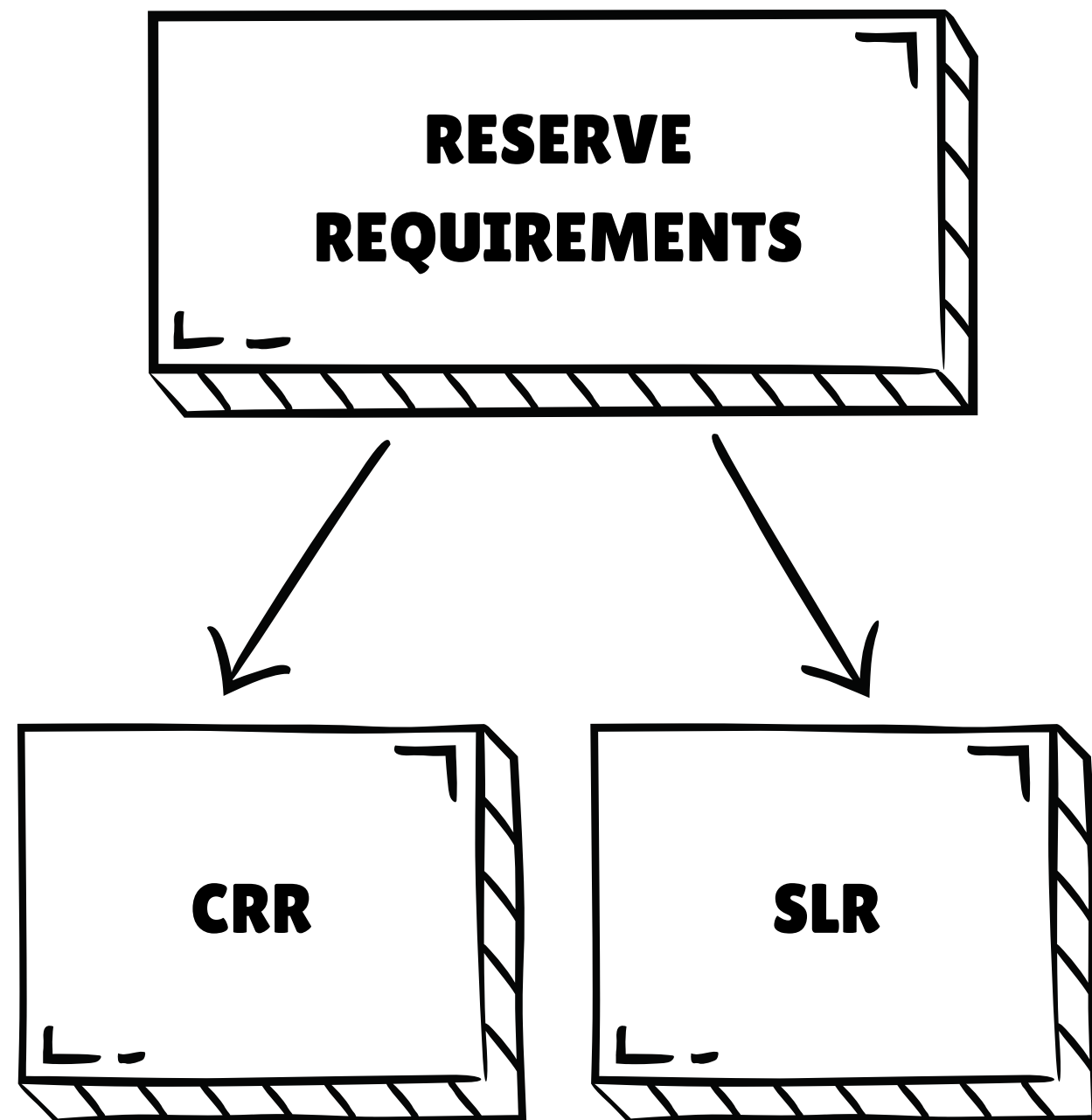
Statutory Reserve Ratio (SLR)

- 1. Statutory Liquidity Ratio (SLR) is the percentage of Net Demand and Time Liabilities (NDTL) that a Scheduled Commercial Bank (SCB) has to keep with itself, in the form of:**
- 2. Cash, or**
- 3. Gold, or**
- 4. SLR Securities (such as government bonds, treasury bills, and any other instrument notified by the RBI), or**
- 5. Any combination of the above three.**

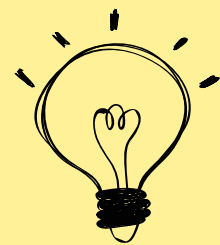


Statutory Reserve Ratio (SLR)

- 1. Unlike the CRR, SLR need not be deposited with RBI.**
 - 2. The range of SLR prescribed by the RBI is from 0 percent to 40 percent.**
- **SLR is increased:** If the RBI increases the SLR, the commercial banks are left with less money to lend to customers. Thus, the effect is reduced money supply in the economy.
 - **If SLR is decreased:** If the RBI decreases the SLR, the commercial banks are left with more money to lend to customers. Thus, the effect is increased money supply in the economy.



- **If the bank fails to maintain the required SLR, then it is liable to pay penal interest at (Bank Rate + 3%) per annum above the bank rate, on the shortfall amount.**
- **If the shortfall continues for the next succeeding day, penal interest is to be paid at (Bank Rate + 5%).**



TO BE CONTINUED

